



# REVISIONS TO THE IRBA CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS (REVISED NOVEMBER 2018) TO PROMOTE THE ROLE AND MINDSET EXPECTED OF REGISTERED AUDITORS

## CONTENTS

---

DEFINITIONS .....	3
SECTION 100 .....	4
SECTION 110 .....	6
SUBSECTION 111 – INTEGRITY .....	7
SUBSECTION 112 – OBJECTIVITY .....	7
SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE .....	7
SUBSECTION 114 – CONFIDENTIALITY .....	8
SUBSECTION 115 – PROFESSIONAL BEHAVIOUR.....	9
SECTION 120 .....	11
EFFECTIVE DATE .....	18

Copyright © March 2021 by the Independent Regulatory Board for Auditors (IRBA). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback, provided that each copy bears the following credit line: “*Copyright © by the Independent Regulatory Board for Auditors. All rights reserved. Used with permission of the IRBA.*”

The proposed revisions to *this* Code are based on local requirements as per Part 4B of the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018). The IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018) adopted the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (Including International Independence Standards)* published by the International Federation of Accountants (IFAC), which is used with the permission of IFAC. South African adaptations to Part 4B are underlined and in italics.

## DEFINITIONS

In the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In these Definitions, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Professional judgement	<p>Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.</p> <p>This term is described in paragraph 120.5 A4.</p>
Reasonable and informed third party	<p>The reasonable and informed third party test is a consideration by the <i>registered auditor</i> about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the <i>registered auditor</i> knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be a <i>registered auditor</i>, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the <i>registered auditor's</i> conclusions in an impartial manner.</p> <p>These terms are described in paragraph 120.5 A6.</p>
Reasonable and informed third party test	

## PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

### SECTION 100

#### COMPLYING WITH THE CODE

##### Introduction

100.1 A distinguishing mark of the profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the profession is a reason why businesses, governments and other organisations involve *registered auditors* in a broad range of areas, including assurance and other professional activities. *Registered auditors* understand and acknowledge that such confidence is based on the skills and values that *registered auditors* bring to the professional activities they undertake, including:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgement.

The application of these skills and values enables *registered auditors* to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high-quality standards of ethical behaviour expected of *registered auditors*.

100.4 The Code establishes five fundamental principles to be complied with by all *registered auditors*. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that *registered auditors* might encounter..

#### Requirements and Application Material

100.5 A1 The requirements in the Code, designated with the letter “R,” impose obligations.

100.5 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a *registered auditor* to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

**R100.6** A *registered auditor* shall comply with the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable *registered auditors* to meet their responsibility to act in the public interest.

- 100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.
- 100.6 A3 Compliance with the requirements of the Code does not mean that *registered auditors* will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which a *registered auditor* believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the *registered auditor* is encouraged to consult with an appropriate body such as a professional *body or Regulatory Body*.
- 100.6 A4 In acting in the public interest, a *registered auditor* considers not only the preferences or requirements of an individual client or firm, but also the interests of other stakeholders when performing professional activities.
- R100.7** If there are circumstances where laws or regulations preclude a *registered auditor* from complying with certain parts of the Code, those laws and regulations prevail, and the *registered auditor* shall comply with all other parts of the Code.
- 100.7 A1 The principle of professional behaviour requires a *registered auditor* to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. *Registered auditors* in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

#### **Breaches of the Code**

- R100.8** Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *Independence Standards*. A *registered auditor* who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the *registered auditor's* ability to comply with the fundamental principles. The *registered auditor* shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
  - (b) Determine whether to report the breach to the relevant parties.
- 100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

## SECTION 110

### THE FUNDAMENTAL PRINCIPLES

#### General

- 110.1 A1 There are five fundamental principles of ethics for *registered auditors*:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
  - (b) Objectivity – to exercise professional or business judgement without being compromised by:
    - (i) Bias;
    - (ii) Conflict of interest; or
    - (iii) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.
  - (c) Professional Competence and Due Care – to:
    - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional standards and relevant legislation; and
    - (ii) Act diligently and in accordance with applicable technical and professional standards.
  - (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
  - (e) Professional Behaviour – to:
    - (i) Comply with relevant laws and regulations;
    - (ii) Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships; and
    - (iii) Avoid any conduct that the *registered auditor* knows or should know might discredit the profession.

**R110.2** A *registered auditor* shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of a *registered auditor*. The conceptual framework establishes the approach which a *registered auditor* is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.1 A2 A *registered auditor* might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the *registered auditor* might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the *registered auditor* from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by

law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The registered auditor is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## SUBSECTION 111 – INTEGRITY

R111.1 A registered auditor shall comply with the principle of integrity, which requires a registered auditor to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.

111.1 A2 Acting appropriately involves:

- (a) Standing one’s ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

R111.2 A registered auditor shall not knowingly be associated with reports, returns, communications or other information where the registered auditor believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a registered auditor provides a modified report in respect of such a report, return, communication or other information, the registered auditor is not in breach of paragraph R111.2.

R111.3 When a registered auditor becomes aware of having been associated with information described in paragraph R111.2, the registered auditor shall take steps to be disassociated from that information.

## SUBSECTION 112 – OBJECTIVITY

R112.1 A registered auditor shall comply with the principle of objectivity, which requires a registered auditor to exercise professional or business judgement without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

R112.2 A registered auditor shall not undertake a professional activity if a circumstance or relationship unduly influences the registered auditor’s professional judgement regarding that activity.

## SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 A registered auditor shall comply with the principle of professional competence and due care, which requires a registered auditor to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent professional service, based on current technical and professional

standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a registered auditor to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

**R113.2** In complying with the principle of professional competence and due care, a registered auditor shall take reasonable steps to ensure that those working in a professional capacity under the registered auditor's authority have appropriate training and supervision.

**R113.3** Where appropriate, a registered auditor shall make clients, or other users of the registered auditor's professional services or activities, aware of the limitations inherent in the services or activities.

## SUBSECTION 114 – CONFIDENTIALITY

**R114.1** A registered auditor shall comply with the principle of confidentiality, which requires a registered auditor to respect the confidentiality of information acquired as a result of professional and business relationships. A registered auditor shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm;
- (c) Maintain confidentiality of information disclosed by a prospective client;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the registered auditor or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the registered auditor's control, and individuals from whom advice and assistance are obtained, respect the registered auditor's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the registered auditor's client to the registered auditor in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where registered auditors are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or



- (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light, including disclosures of reportable irregularities reported to the Regulatory Board as required by Section 45 of the Act;
  - (b) Disclosure is permitted by law and is authorised by the client; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:
    - (i) To comply with the quality review of the Regulatory Board or a professional body;
    - (ii) To respond to an inquiry or investigation by a professional body, the Regulatory Board and any other regulatory body;
    - (iii) To protect the professional interests of a registered auditor in legal proceedings; or
    - (iv) To comply with technical and professional standards, including ethics requirements.
- 114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:
- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client consents to the disclosure of information by the registered auditor.
  - Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
    - Unsubstantiated facts.
    - Incomplete information.
    - Unsubstantiated conclusions.
  - The proposed type of communication, and to whom it is addressed.
  - Whether the parties to whom the communication is addressed are appropriate recipients.
- R114.2** A registered auditor shall continue to comply with the principle of confidentiality even after the end of the relationship between the registered auditor and a client. When changing employment or acquiring a new client, the registered auditor is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

## SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

- R115.1** A registered auditor shall comply with the principle of professional behaviour, which requires a registered auditor to:
- (a) Comply with relevant laws and regulations;
  - (b) Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships; and
  - (c) Avoid any conduct that the registered auditor knows or should know might discredit the profession.

A registered auditor shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles

- 115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third

party would be likely to conclude adversely affects the good reputation of the profession.

- R115.2** When undertaking marketing or promotional activities, a registered auditor shall not bring the profession into disrepute. A registered auditor shall be honest and truthful and shall not make:
- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the registered auditor; or
  - (b) Disparaging references or unsubstantiated comparisons to the work of others.
- 115.2 A1 If a registered auditor is in doubt about whether a form of advertising or marketing is appropriate, the registered auditor is encouraged to consult with the relevant professional body and Regulatory Body.

## SECTION 120

### THE CONCEPTUAL FRAMEWORK

#### Introduction

- 120.1 The circumstances in which registered auditors operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist registered auditors in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter registered auditors from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a registered auditor to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

#### Requirements and Application Material

##### *General*

- R120.3** The registered auditor shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (d) Part 3 – Registered Auditors Performing Professional Services;
  - (e) Part 4 -Independence Standards, as follows:
    - (i) Part 4A – Independence for Audit and Review Engagements; and
    - (ii) Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.
- R120.4** When dealing with an ethics issue, the registered auditor performing professional services shall consider the context in which the issue has arisen or might arise.
- (Part of R120.4 of the IESBA Code has been phrased as South African application material paragraph 120.4 A1 SA, to simply a reference to Part 2 of the Code).*
- 120.4 A1 SA Where an individual who is a registered auditor is performing professional activities pursuant to the registered auditor's relationship with the firm, whether as a contractor, employee or owner, the provisions in Part 2 of the IESBA Code will apply to these circumstances. Examples of these circumstances are set out in paragraph 300.5 A2.
- R120.5** When applying the conceptual framework, the registered auditor shall:
- (a) Have an inquiring mind;
  - (b) Exercise professional judgement; and

- (c) Use the reasonable and informed third party test described in paragraph 120.5 A6.

### *Having an Inquiring Mind*

120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- (b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the registered auditor might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the registered auditor.
- There is an inconsistency between the known facts and circumstances and the registered auditor's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all registered auditors to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all registered auditor regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the IAASB, registered auditors are also required to exercise professional scepticism, which includes a critical assessment of evidence.

### *Exercising Professional Judgement*

120.5 A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A5 Professional judgement is required when the registered auditor applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the registered auditor might consider matters such as whether:

- The registered auditor's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The registered auditor's own preconception or bias might be affecting the registered auditor's exercise of professional judgement.

### *Reasonable and Informed Third Party*

**120.5 A6** The reasonable and informed third party test is a consideration by the registered auditor about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the registered auditor knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a registered auditor, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the registered auditor's conclusions in an impartial manner.

### *Identifying Threats*

**R120.6** The registered auditor shall identify threats to compliance with the fundamental principles.

**120.6 A1** An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the registered auditor's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, or the firm, that can enhance the registered auditor acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a registered auditor's judgement or behaviour;
- (b) Self-review threat – the threat that a registered auditor will not appropriately evaluate the results of a previous judgement made, or an activity performed by the registered auditor or by another individual within the registered auditor's firm, on which the registered auditor will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that a registered auditor will promote a client's position to the point that the registered auditor's objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, a registered auditor will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a registered auditor will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the registered auditor.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

### *Evaluating Threats*

**R120.7** When the registered auditor identifies a threat to compliance with the fundamental principles,

the registered auditor shall evaluate whether such a threat is at an acceptable level.

#### *Acceptable Level*

120.7 A1 An acceptable level is a level at which a registered auditor using the reasonable and informed third party test would likely conclude that the registered auditor complies with the fundamental principles.

#### *Factors Relevant in Evaluating the Level of Threats*

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the registered auditor's evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the registered auditor and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

#### *Consideration of New Information or Changes in Facts and Circumstances*

**R120.9** If the registered auditor becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the registered auditor shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the registered auditor in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the registered auditor's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the registered auditor is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

#### **Addressing Threats**

**R120.10** If the registered auditor determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the registered auditor shall address the threats by eliminating them or reducing them to an acceptable level. The registered auditor shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

### *Actions to Eliminate Threats*

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

### *Safeguards*

120.10 A2 Safeguards are actions, individually or in combination, that the registered auditor takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

### *Consideration of Significant Judgements Made and Overall Conclusions Reached*

**R120.11** The registered auditor shall form an overall conclusion about whether the actions that the registered auditor takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the registered auditor shall:

- (a) Review any significant judgements made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

## **Other Considerations when Applying the Conceptual Framework**

### *Bias*

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

### *Organisational Culture*

120.13 A1 The effective application of the conceptual framework by a *registered auditor* is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the *registered auditor's* firm

120.13 A2 The promotion of an ethical culture within an organisation is most effective when:

- Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organisation;
- Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and
- The organisation adheres to ethical values in its dealings with third parties.

120.13 A3 *Registered auditors* are expected to encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority.

## **Considerations for Audits, Reviews, Other Assurance and Related Services Engagements**

### *Firm Culture*

120.14 A1 ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

### *Independence*

120.15 A1 *Registered auditors* are required by Independence Standards to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 A2 *Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. *Registered auditors* and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual



framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

### *Professional Scepticism*

120.16 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, registered auditors are required to exercise professional scepticism when planning and performing audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.16 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- Integrity requires the registered auditor to be straightforward and honest. For example, the registered auditor complies with the principle of integrity by:
  - Being straightforward and honest when raising concerns about a position taken by a client.
  - Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
  - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences. Acting appropriately involves:
    - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
    - (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the registered auditor demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.

- Objectivity requires the registered auditor to exercise professional or business judgement without being compromised by:
  - (a) Bias;
  - (b) Conflict of interest; or
  - (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

For example, the registered auditor complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the registered auditor's professional or business judgement; and
- (b) Considering the impact of such circumstances and relationships on the registered auditor's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the registered auditor behaves in a manner that contributes to the exercise of

professional scepticism.

- Professional competence and due care requires the registered auditor to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the registered auditor complies with the principle of professional competence and due care by:
  - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
  - (b) Designing and performing appropriate audit procedures; and
  - (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the registered auditor behaves in a manner that contributes to the exercise of professional scepticism.

## **EFFECTIVE DATE**

These amendments will be effective as of 31 December 2021. Early adoption will be permitted.